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ABSTRACT

Areas in which program evaluation is available and the manner in which it is carried out are examined. They include: (1) the use of professional analysts for technical needs and requirements; (2) the use of market price to measure efficiency of business services; (3) the use of management evaluation programs prepared by outside agencies; (4) the use of annual budget reviews; and (5) the use of faculty advisory committees. Specific concerns of the university related to each of these major areas are identified and discussed, including investment policies, expenditure patterns, physical plant maintenance costs, personnel benefits, and student programs. (LBH)

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"The process is not new. . . . No activity has been more subject to review and evaluation than the accounting and fiscal operations."

PROGRAM REVIEW AND EVALUATION IN THE BUSINESS AND FINANCIAL AREA

By Wilbur K. Pierpont

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Program review, program evaluation, program budget and evaluation, these are the "in" words and phrases for a process which is not particularly new, nor a process which originated with the current fiscal problems of colleges and universities. At least the process is not new nor particularly related to current financial stringencies when applied to the business and financial areas of college and universities. Yet, the extraordinary attention which this process now commands has a beneficial aspect in that old routines may be examined for their current usefulness and new applications may be developed to improve the elements of a comprehensive program evaluation process for the business and financial areas of colleges and universities.

Why do we say that program evaluation is not new in the business and financial areas? For a long time now, college and university financial policies, procedures, accounts, and reports have been subject to periodic review and evaluation, generally on a time period basis or on a transaction basis, by auditors from the public accounting profession, the state government, the federal government, and the internal audit staff of the institution. No activity or group within an educational institution has been more subject to periodic review and evaluation than the accounting and fiscal operations.

If it comes as a surprise that audit is a program evaluation process, one should understand that one of the program objectives of an accounting function is the accurate recording and reporting of income and expenditures and of assets and liabilities. The audit opinion of a certified public accounting firm evaluates this function with the statement that, "In our opinion, the statements mentioned above present fairly the financial position of the several funds of . . . at June 30, 1972, and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year."

Since the accounts and records of colleges and universities, particularly those with state support, federal support, and private support, generally are audited by the four audit groups noted above, and oftentimes concurrently, it is advisable to give careful consideration to the most effective use of these evaluation services. The audit groups, to be sure, have certain specific objectives which differ and these different objectives should be recognized and respected. Yet, there may be duplication, overlap, or redundancy in these audits and the cost of these evaluation services, as a direct cash outlay or in the time and effort of institutional personnel who respond to or are affected by the auditors, should be under constant supervision.

Evaluation Areas

Let us consider a number of other areas in which program evaluation is available and the manner in which such an evaluation is carried out. These are:

1. *The use of professional analysts for technical needs and requirements.* Certain needs and requirements in the business and financial areas are quite technical in character and require highly skilled and technically qualified personnel in their purchase and administration.

A good example of a technical need is insurance, the coverage of property, liability, malpractice, and other risks borne by the institution. There are qualified, independent analysts available who will evaluate an insurance program and provide assistance in obtaining the most appropriate insurance coverage for the institution at the lowest cost. No one institution probably can afford or needs to have on its staff the required technical competence in such a complex area as insurance. Outside

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analysts are available to supplement the capabilities of the administrative staff responsible for the insurance program of the institution and these analysts bring an independent evaluation service to a technical subject.

Specifically, and in some detail, an evaluation of an insurance program at an institution would cover the following items:

(a) The objectives to be accomplished by an insurance program;

(b) The adequacy of administrative authority to accomplish these objectives;

(c) The appropriateness of the functional responsibility for this authority;

(d) Staffing and administrative functions;

(e) The flow of information to the Insurance Office;

(f) Periodic reports by the Insurance Manager for management consideration;

(g) Appropriate insurance policy endorsements to cover all the entities included in a corporate structure;

(h) Adequate loss-reporting provisions;

(i) Controlled cancellation or termination provisions;

(j) The use of self-insurance where appropriate, considering risks, premiums and other relevant information;

(k) Relationships with insurance carriers;

(l) Coverage for specialized risks, i.e., reactors, wind tunnels, rare books;

(m) Geographical coverage; and

(n) The use of deductibles.

A second example in the use of professional analysts is the use of outside evaluation services to review and consider the administration of investment programs. These services have now been in existence for a number of years and they are now beginning to have sufficient time periods in their surveys to give meaning and usefulness to the results disclosed in these surveys.

Using the Reports

Reports can now be obtained from investment evaluation services which will assist a college or university to:

(1) Review investment policies and procedures which have been followed in the past;

(2) Monitor current performance;

(3) Reconsider investment objectives;

(4) Establish future requirements from invested funds;

(5) Consider expenditure patterns as they relate to investment results.

The invested funds of colleges and universities often consist of funds with different characteristics, endowment funds, retirement funds, funds expendable over time, construction funds, short-term working capital funds, or specifically designated funds with particular characteristics. Evaluation services to review investments of funds with different characteristics should be carefully selected to be applicable and useful to the management of the institution or the trustees in reviewing the accomplishments of an investment program.

In the use of investment evaluation services, it is well to recognize that it is possible to quantify the results of investment performance which will help to understand differences in investment objectives, differences in types and relative amounts of securities used, the impact of the timing of cash flows, and other specific characteristics of an investment fund. But investment performance is also affected by the attitudes of the management, the trustees, or the investment advisor; public and private constraints of various kinds; expectations of the several groups involved; and such other subjective considerations.

A third example, currently becoming of much interest, is the use of a technical advisory service with respect to the provision of electrical energy. All institutions are being subjected to rapidly increasing costs in the purchase of electrical energy, and most institutions do not produce very much, if any, of their own needs.

In the event an institution produces large amounts of steam for heating purposes, it may be desirable to consider the production of electrical energy as a part of the heating plant operations. Engineering firms may be employed to make detailed studies on the generation of electrical energy as a part of a heating plant system, using the electrical energy produced as an additional source to the local public utility. The costs of such energy may or may not be below current or projected utility rates, assuming the application of full costs including capital amortization to the energy produced.

An engineering study of this kind should cover the various alternatives which are available, the purchase of all energy needed, the purchase of part and the generation of part of the needs, or the generation of all the needs. These studies should be coordinated with the planning studies of the local utility and should give careful consideration to the following factors:

(1) Year-round steam loads for heating and air-conditioning as these loads relate to the generation of electrical energy;

(2) Year-round loads for electrical energy;

(3) Capital costs required;

(4) Costs of electrical energy produced;

(5) Environmental aspects, if any, such as smoke emission, power lines, heat emissions;

(6) Political considerations, if any.

Opportunities for the use of outside evaluation services also exist with respect to security programs, data systems applications, and food services. The same care and careful consideration should be given to the use of outside consultants with respect to these activities as was described for insurance, investments, or the generation of electrical energy.

2. *The use of market price to measure efficiency of*

business services. It is commonplace, with respect to printing, binding, laundry, transportation, and other such services, which may be purchased in the marketplace, to compare the costs of these services if provided by the institution with comparable costs if provided by outside sources. Such comparisons, if they are regularly made and if they reflect comparable elements of costs, are an effective method for evaluation of these services.

Hire Specialists

Most institutions, at least those with dormitories, student centers, and health services, have a need for laundry services, which may or may not be available in the quantity needed from local firms; and over the years, a laundry service may have been created and enlarged by the institution without recognizing in full the total costs of such a service. In such a case, it is possible to obtain the services of recognized laundry operation experts who can evaluate the relative costs of providing laundry service by the institution or by outside laundries. Such evaluations, if professional and complete, will consider the alternatives available, all or partial laundry service purchased or provided; specialized needs which may be purchased or provided at favorable rates; capital costs; delivery schedules; and linen inventories.

3. *The use of management evaluation programs prepared by outside agencies.* Recently, the concept of a self-evaluation and appraisal has been expanded and the basic elements of such self-surveys have been published. The U.S. Department of Health, Education, and Welfare, through its Office of Assistant Secretary, Comptroller, Division of Grants Administration Policy, recently published a document entitled, "A Program for Improving the Quality of Grantee Management." In the foreword to this document, the Under Secretary states:

> "Basic to the new concept is self-evaluation and appraisal. I urge every grantee organization to use this brochure as a guideline—for measuring its management system, for conducting a thorough evaluation of its activities against the broad objectives of effective management, and for taking corrective action where the need is brought to light."

This document identifies eight systems for review and evaluations, (1) Fiscal Administration, (2) Procurement, (3) Property Management, (4) Personnel, (5) Facilities Managements, (6) Planning and Budgeting, (7) Management Information, and (8) Inventions and Patents. A general format for the self-appraisal is set forth and specific guides are presented for each of the eight systems.

It is obvious from the eight systems identified that all areas of business and financial services and a large number of persons will be involved in this self-appraisal. It will be worthwhile and advantageous to the evaluation process if persons involved at many levels of management are included in the efforts put forth; and if personnel in other functional areas of the institution also are aware of and participate in the evaluation. Particularly in large institutions, it would be beneficial to the validity of the self-appraisal if representatives of the academic administration, the research administration, and the student services administration were involved in those aspects of the appraisal which bear on their responsibilities.

A detailed look at the HEW document indicates that many specific procedures and policies are considered; and it will be advisable that those persons directly responsible for these detailed operations be involved to insure a high quality self-appraisal. It is not to be expected that the senior department heads will always be specifically informed with respect to the many details inquired about; and opportunities for in-depth information on the operations of the business and financial areas will be overlooked if the appraisal is limited just to the senior department heads or the business officer.

All institutions have had the experience of subtle changes in policies, overlooked procedural requirements, or work just not being done, all as a result of turnover in personnel, inadequately written procedural manuals, and just the normal changes which take place over time in any operation. A self-evaluation, in depth by many people involved in the day-to-day operations will provide another opportunity to maintain high levels of performance at all levels.

If a college or university seriously undertakes a self-evaluation and appraisal of its business and financial areas by following this HEW Program for Improving the Quality of Grantee Management it will accomplish a major program of evaluation for most of its business and financial functions.

Evaluation Standards

There are program evaluation standards in the areas of staff benefits, which can be used to compare desirable objectives with the staff benefit programs in effect at any time. The Association of American Colleges and the American Association of University Professors jointly prepared in 1969 a Statement of Principles on Academic Retirement and Insurance Plans which sets forth recommended practices and standards for these benefit programs. The Teachers Insurance and Annuity Association has published from time to time booklets setting forth desirable goals for the integration of TIAA and Social Security programs, for the establishment of major medical health insurance programs, and for the provision of other staff benefits. These include Planning a Retirement Program, Group Major Medical Expense, Group Total Disability Benefits Insurance, and Group Life Insurance.

4. *The use of annual budget reviews.* Another opportunity is presented in the program evaluation process during the annual budget review, encompassing the requests for new staff, or a different composition of the

present staff, or promotions, or salary increases, or any combination of these elements of an annual budget review. This process, to be sure, is an inside evaluation but it is possible to broaden the impact and intensity of the process by the use of review groups within the business and financial area.

For example, a small internal review group which could include representatives from the personnel, fiscal, planning, and plant areas to consider staff changes for any specific business and financial area will provide an evaluation service for the chief business officer which is more comprehensive and definitive than the independent evaluation service of each department head.

5. *The use of faculty advisory committees.* There is a unique opportunity in a college or university for the business and financial areas to obtain one of the elements of a comprehensive evaluation process through the use of faculty advisory committees. These committees can serve to evaluate the observations, analyses, or recommendations of outside consultants or specialists, particularly with respect to the validity or applicability of consultant reports from the point of view of faculty interests and objectives. The use of faculty advisory committees is also a method by which specific expertise on the faculty of a professional nature can be incorporated in the program evaluation process.

There are a number of responsibilities in which faculty advisory committees may play a significant and worthwhile part. These include, as examples:

(1) In the investment program, the voting of stock proxies has become a matter of concern to various faculty and student groups. A faculty committee is helpful in sorting out these interests, providing opportunities for campus discussions, and reflecting interests for consideration by the institution in its security holdings.

(2) In the location of new buildings and the renovation of old buildings, the most appropriate location of academic functions among competing choices can be effectively assisted by advice from faculty advisory groups.

(3) In the use of open land areas, for which there are logically competing choices among instructional purposes, research purposes, recreational needs, parking spaces, open areas, or other uses, faculty advice is one of the significant inputs in such decision making.

(4) The communication mechanisms between the business and financial areas may be reviewed and modified with the advice and counsel of faculty committees. Reports, for example, from the Controller's Office, the Personnel Office, or the Staff Benefits Office, to Deans, Department Heads, and Project Directors need to be tailored as much as possible to the needs of these specific users. Faculty members as Project Directors are able to offer advice on how these reports can be made more effective to the using groups or individuals.

(5) In the periodic and regular recurring discussions on the "centralization" or "decentralization" of business and financial services, the faculty have a significant contribution to make, in weighing the relative costs of various alternatives, in indicating the significance of these services relative to academic or other faculty interests, or in advising on the quality of these services as rendered by a central organization or by individual units in the school, college, or other academic units.

Draw in Faculty

Faculty committees comprising both generalists and specialists from the faculty give a continuing opportunity for an interested and qualified group to provide a balanced and extremely useful evaluation of the quality and quantity of services rendered by the business and financial areas.

While it is true that the business and financial areas of colleges and universities have been subject to program evaluation for some time and by different approaches, it is appropriate that business and financial officers take a critical look at the present efforts from two points of view. Are the current evaluations most effectively applied and most effectively used? And are there additional areas of responsibility for which evaluations have not been carried out but for which consideration should be given?

As a suggestion, one can inventory the major areas of responsibility and consider in an organized manner the coverage and effectiveness of program evaluations for the full range of responsibilities of the business and financial officer. For most of these responsibilities, there is a way to evaluate the service rendered, by the use of outside organizations or agencies, or by a qualified group inside the university, or by an appropriate combination of both of these sources of evaluation services.

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